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SUBJECT: REFORMS MOVE AHEAD AS MCA THRESHOLD PROGRAM GETS UNDERWAY

REF: Lilongwe 690

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11. (U) Summary: Since the official launch of Millennium Challenge Threshold Program activities in April of this year, Malawi has made important gains in addressing corruption and improving public finance management, the two focus areas for the program. The advances have included legislative action, regulatory reform and improvements in program administration. Some of the reforms are directly attributable to the MCA program, while others are part of a general trend of small but steady positive reforms that we believe will continue for the foreseeable future. End summary.

#### MCA Threshold Up and Running

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12. (U) The Millennium Challenge Corporation granted Malawi \$20.9 million in September 2005 for Threshold Program assistance to improve the country's performance in controlling corruption and managing public finances. In the six months following the grant signing, USAID worked with the GOM to finalize design of some 15 specific program interventions and procure the services required to execute those programs. In April 2006, the U.S. Mission convened the entire team of experts contracted to carry out the Threshold Program activities and launched the program.

13. (U) Since April, the MCA partners and contractors have established operations and commenced their activities. A GOM interagency MCA Task Force has met regularly to review the progress of activities, particularly the GOM's action items under the Threshold Plan. At the same time, the GOM has carried out a number of reforms, and there are early signs of positive and steady progress on legislation, regulatory reform and improvements in program administration.

#### Legislative Action

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14. (U) As reported in reftel, the Malawi Parliament passed new money laundering legislation in August that is generally in line with international standards. MCA-funded advisors from the U.S. Departments of Treasury and Justice played a crucial role in the passage of the law, supporting Mission efforts to educate legislators and opinion makers about its importance for Malawi's reform process. While the bill still requires some amendments and the GOM has yet to formally implement the law, its passage is a critical first step and an important performance benchmark for the

MCA Threshold Country Program. The passage has allowed our MCA-funded Treasury and Justice advisors to work with the GOM on planning specific steps for implementation of the law, which requires creation of a Financial Intelligence Unit, and to conduct a series of training courses for judges, police and judicial officers on how the law will work in practice.

15. (U) In the same August session, Parliament passed an amendment to the Public Finance Management Act that restricts the discretionary authority of the Minister of Finance to waive taxes and duties, except in cases of national emergencies. This closes a loophole that was badly abused during the Muluzi administration, particularly with regard to the waiver of import duties on motor vehicles and other capital equipment for friends of the regime. Along with the new amendment, the GOM has revised customs and excise regulations to allow for expanded duty-free import of capital goods, thereby reducing government intervention and opportunities for corruption.

#### Strengthening Parliament -----

16. (U) A key component of the Threshold Program is strengthening the oversight role of Parliament, which will contribute to both the goals of combating corruption and improving GOM fiscal management. In the new budget passed in August the GOM has, for the first time, provided full funding for the operation of parliamentary committees. Previously, that funding had not been available, and only three of Parliament's committees had met since the election of May 2004.

17. (U) Parliamentarians have taken up the new resources with great enthusiasm, and committees are meeting and conducting oversight hearings. The Public Appointments, Public Accounts, and Legal Affairs committees have been particularly active. The Appointments Committee has already approved and denied several presidential nominations for senior government positions and is playing a much more assertive role than in the past. The Accounts Committee has called several senior civil servants to testify on their handling of

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public finances, and has made many recommendations to government on how to improve operations. The Legal Affairs Committee this week called on the Government to accelerate presentation of a draft freedom of information act, another MCA Threshold performance benchmark. The committee meetings have garnered significant media coverage and have sparked a healthy and refreshing national debate on the role and practice of parliamentary committees in the oversight of government.

18. (U) Since March an MCA-funded team from the State University of New York Center for International Development has set up operations and worked with Parliament to lay out an action plan of training and development activities that will take place over the life of the Threshold program.

#### Regulatory and Administrative Reforms -----

19. (U) The Threshold Program has already provided targeted training to a range of professionals who are directly involved in anti-corruption efforts and public finance management. MCA-funded Treasury and Justice experts have conducted a number of training courses for police, judges, prosecutors, and other legal professionals in money laundering, financial crimes, and investigative techniques. MCA is funding three staff members from the Office of the Director of Public Procurement to earn masters degrees in the next year, and four Malawian legal professionals are attending an MCA-funded legislative drafting course in the UK.

110. (U) At the urgent request of the Finance Minister, the MCA-funded U.S. Treasury debt advisor recently visited the country to help formulate a policy on securitizing the GOM's arrears that were accumulated during the period of extensive corruption of the previous Muluzi administration. Thanks to flexible and responsive MCA assistance, the Ministry of Finance will soon roll out a plan to create a bond market for that debt and put it on a sustainable financial footing.

¶11. (U) MCA funds have purchased Fitch Sovereign Credit Rating Service for Malawi, to provide a real-world measure of the country's progress in managing its finances. U.S. Treasury advisors are working with the Reserve Bank of Malawi to get ready for the first credit rating visit with a series of training events in November.

¶12. (U) MCA is providing critical support to a major overhaul of the GOM's accounting systems, by implementing a long-delayed Integrated Financial Management Information System (IFMIS). MCA-supported experts have carried out comprehensive assessments of both the technological and accounting aspects of the system, and MCA funding is currently training 15 GOM auditors in Tanzania, which operates a similar system. Implementation of the IFMIS is another major MCA Threshold performance benchmark, and will significantly improve accountability and transparency across the executive and the legislature.

¶13. (U) Apart from the Threshold Program, the GOM has carried out numerous reforms in the areas of internal controls and financial management as part of the ongoing IMF review of Malawi's Poverty Reduction Growth Facility (PRGF). Last month the IMF announced Malawi's satisfactory completion of the second review of the PRGF, and the Fund released the next disbursement of over \$7 million of PRGF funds.

¶14. (U) The GOM is also pursuing implementation of a national ID program, as well as mandatory birth and death registrations. If successful, those reforms will improve accountability in the processing of government benefits and should reduce fraud and waste.

Comment: Moving in the Right Direction  
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¶15. (U) While MCA Threshold Program activities are still in the initial stages, the actions of government described above show that the atmosphere for reform is positive, and that Malawians are pushing ahead with constructive changes large and small. This is precisely the kind of support for home-grown reform efforts that we envisioned when Malawi first became eligible for MCA Threshold assistance nearly two years ago. We realize that not every intervention of the Threshold Plan will be equally successful, but we are optimistic that the progress shown thus far is the beginning of a steady incremental reform process that will continue for the foreseeable future.

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